Building Momentum:
Pooled Registered Pension Plans

by | Kiersten Amos
An alternative private sector pension arrangement called a pooled registered pension plan (PRPP) is now available in Canada. Will it help more Canadians save for retirement?

Nearly two years after they were first introduced, pooled registered pension plans (PRPPs) are finally becoming available in Canada. PRPPs are seen as a strategy to help increase the number of Canadians covered by a registered pension plan and are now available for federally regulated employers. Some provinces are beginning to introduce their own legislation to allow PRPPs. Whether PRPPs will fulfill their objective is open for debate. Proponents tout their accessibility, portability and low cost, but skeptics believe few will use the new mechanism, leaving many Canadians without a viable option to save for retirement.

Canada’s Aging Workforce and Retirement Income System

The problems are well-known—Canadians are living longer but failing to save enough for a retirement that may last for more than 30 years. Fewer private sector employers offer or participate in workplace pensions, and many argue that Canada’s retirement income system is no longer adequate to meet the needs of the aging population.

According to Statistics Canada, in 2012, only 38.4% of all employees were covered by a registered pension plan. Of the percentage covered, only 71.5% were in defined benefit pension plans, which is down nearly 13% from ten years ago. Defined contribution (DC) plans accounted for only 16.7% of all employees covered by a registered pension plan. Interestingly, of those employees in a DC plan, nearly 86% were in the private sector.

To address this trend, the federal government introduced pooled registered pension plans (PRPPs) in 2012 as a new alternative private sector pension arrangement for Canadians.

Federal PRPPs

PRPPs are intended to provide Canadians who do not have access to a traditional workplace pension with more investment options and retirement savings opportunities than currently available through traditional registered pension plans. Individual members may join a PRPP, with or without participation by their employer.

The objective of PRPPs is to pool the assets of individual participants to achieve lower costs for investment management and plan administration. Hallmarks of the PRPP are that they are accessible and low-cost for individual members.

By December 14, 2012, the act and regulations were all in place and in effect. The federal legislation applies to Canadians working in the three territories or in a federally regulated industry, including but not limited to the airline industry, banking and financial services, railway and transport trucking, and telecommunications. So far, PRPPs are only available to this cross-section of the Canadian workforce.

Although legislation was passed at the end of 2012, the final step in making PRPPs a reality was only announced by the Canadian government on October 7, 2014, when the federal government stated that five insurance companies had been licensed and registered to provide PRPPs in Canada. The regulatory scheme for PRPPs requires that they are administered by qualified and licensed financial institutions. The corporations newly minted as administrators of PRPPs, in no particular order, are Great-West Life Assurance Co., Industrial Alliance Insurance and Financial Services Inc., Manulife Financial Corp., Standard Life and Sun Life Financial Inc.

PRPPs for the Rest of Canada?

To date, the federal government is the only jurisdiction in Canada to have fully implemented PRPPs. However, the federal government continues to encourage the provinces to implement the PRPP framework for provincially regulated industries. So far, British Columbia, Alberta, Saskatchewan,
Quebec and Nova Scotia are moving forward with the initiative.

In 2013, Quebec, Alberta and Saskatchewan introduced legislation enabling a pooled retirement program. Quebec created a voluntary retirement savings plans (VRSPs) framework that is different from the federal framework. The Quebec VRSPs came into effect July 1, 2014.

In May 2013, both Alberta and Saskatchewan passed legislation to introduce PRPPs. While Saskatchewan primarily adopted the federal legislation and federal framework, Alberta’s legislation is distinct from the federal framework. Neither province has proclaimed the legislation in force or effect as yet; therefore, PRPPs are not yet implemented in these provinces.

In British Columbia, the government passed a PRPP act in May 2014 that primarily adopts the federal legislation and PRPP framework. The act is not yet in effect pending the enactment of regulations to implement the PRPP framework.

In November 2014, Nova Scotia passed legislation to introduce PRPPs. The legislation largely adopts or mirrors the federal legislation. PRPPs will be voluntary and many of the details governing them will be set out in the regulations. The legislation has not yet been proclaimed in force, but the Nova Scotia government has indicated that it expects to complete the regulations and have the framework to offer PRPPs in place by early 2015.

In Support of PRPPs

As the federal legislation provides the only fully implemented PRPP framework in Canada to date, it is our best example of what the near future of PRPPs will look like in Canada.

Many proponents of PRPPs point to the voluntary nature as a major upside. PRPPs are completely voluntary for both employers and employees. Employers are not required to offer a PRPP to employees and, if they do offer a PRPP, they are not required to contribute on their employees’ behalf. PRPPs must be administered by a licensed, third-party corporation responsible for the overall design and operation. PRPP administrators assume the fiduciary duties and responsibilities associated with the administration, while the participating employer is not liable for the acts or omissions of the PRPP administrator.

Similarly, employees may become members of a PRPP without participation or contribution by their employer. This creates an option for employees who previously did not have a retirement savings vehicle because their employer didn’t offer a plan. Registered retirement plans provide employees with the tax benefit of having their contributions to the registered pension plan (now including PRPPs) deductible from their income before taxes. The amount an employee chooses to contribute to a PRPP is not taxed as income at the time it is earned.

There are also tax benefits for employers in choosing to participate in a PRPP for their employees. Employers who choose to participate in a PRPP remit contributions directly to the PRPP. The employer receives a tax deduction for the amount of the contributions, and that same amount is not taxable income to the employee until it is withdrawn from the plan. In contrast, when an employer makes contributions to a group registered retirement savings plan on behalf of an employee, the amount of the contribution is taxable to the employee and the employer does not receive a tax deduction.

Another argument in favour of PRPPs is their portability. PRPPs are not tied to an employer or a workplace, which allows individual members to move their PRPPs with them as they change employment throughout their careers, regardless of employer or workplace participation.
The federal framework has dictated a maximum cost to members based on costs comparable to a large-scale DC plan. The objective of the legislation is to ensure that costs are comparable to institutional pricing rather than retail pricing.

Considering all of the above, it is highly anticipated that PRPPs will be an attractive option for small to medium-sized employers or self-employed persons—a cross-section of the population that is likely without a workplace pension plan. By providing an affordable means with limited risk for employers, PRPPs will create an opportunity for these groups to offer a workplace pension plan to employees as part of a competitive compensation plan.

What the Critics Say

Critics point to the voluntary nature of PRPPs as a fundamental flaw. By leaving participation open and voluntary, there is no guarantee that the Canadians who have the greatest need for this type of pension plan will actually use PRPPs; i.e., you can lead a horse to water but you cannot make it drink. Thus, will the PRPPs gain any traction?

PRPPs are creatures of statute, so it should not be a surprise that other criticisms are political in nature. There are those who view the government’s push for PRPPs as a distraction from a larger problem and more complicated question being debated regarding expanding the Canada Pension Plan (CPP). By introducing a “new solution,” the pressure on the government to respond to the question of expanding the CPP is alleviated. Alternatively, the government is avoiding the equally large and complicated question of how to address the shortcomings of the Canadian retirement income system as a whole.

Other critics have suggested that PRPPs are a ploy of the government to provide more income and revenue streams for financial institutions that will profit from administrative fees for providing the service.

Considering all of the above, it is safe to say there remain skeptics who are not convinced that the highly anticipated PRPPs will be a solution or even anything more than a bit player in the retirement landscape for Canada. As the future is unknown, we can only wait to see whether the criticisms prove true.

Final Thoughts

As with all debates, there are two sides, each with strong arguments. But what we have here and now is a framework that is rolling ahead. Even if PRPPs are not the fix to the bigger problem, if they gain traction and, as a result, a greater portion of the population begins saving for retirement where they were not prior, can that really be a bad thing?

Endnotes

9. Ibid.

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